

Message Text

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ORIGIN SS-15

INFO OCT-01 AF-08 ARA-06 ISO-00 PM-04 TRSE-00 NSC-05
DODE-00 AID-05 L-03 OMB-01 IGA-02 /050 R

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R 212024Z DEC 76
FM SECSTATE WASHDC
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AMEMBASSY LIBREVILLE
AMEMBASSY MEXICO

C O N F I D E N T I A L STATE 308154

E.O. 11652: GDS

TAGS:SE, GB, MX, MASS

SUBJECT: FMS POLICY
FOLLOWING STATE 257643 BEING REPEATED YOUR POST
SUMMARY. THE PURPOSES OF THIS MESSAGE ARE:
A) TO RESTATE CURRENT POLICY OF LIMITING THE USE OF FMS
CREDITS AND GUARANTIES TO FINANCE PROCUREMENT OF MAJOR END
ITEMS AND RELATED MILITARY INVESTMENT PURPOSES; B) TO
RECOGNIZE THAT SPECIAL CIRCUMSTANCES IN PARTICULAR
COUNTRIES MIGHT, AT PARTICULAR TIMES, WARRANT EXCEPTIONS
TO THAT BASIC POLICY; AND C) TO REQUEST ADDRESSEES TO
ENSURE:
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1) THAT HOST GOVERNMENTS UNDERSTAND BASIC POLICY;
2) THAT REQUESTS FOR EXCEPTIONS BE KEPT TO THE MINIMUM;
AND THAT SUCH REQUESTS ARE RECOMMENDED TO THE DEPARTMENT
ONLY ON THE BASIS OF FULL AND DETAILED JUSTIFICATION
APPROVED BY THE CHIEF OF MISSION. END SUMMARY.

1. POLICY GUIDELINES WITH REGARD TO THE USE OF FOREIGN
MILITARY SALES CREDITS AND GUARANTIES HAVE LONG REQUIRED
THAT THEY BE USED ONLY TO FINANCE INVESTMENT REQUIREMENTS

AND MAJOR ATTRITION ITEMS.

2. "INVESTMENT REQUIREMENTS" ARE THOSE INITIAL ITEMS OF EQUIPMENT, AND INITIAL PURCHASES OF SUPPLIES AND OF SERVICES WHICH INCREASE THE RECIPIENT'S MILITARY FORCE CAPABILITY, INCLUDING UNIT EQUIPMENT, WAR RESERVE EQUIPMENT AND AMMUNITION, REPLACEMENT OF OBSOLETE EQUIPMENT BY IMPROVED TYPES, INITIAL SPARE PARTS PROGRAMMED FOR DELIVERY CONCURRENT WITH RELATED MAJOR ITEMS, AND TRAINING ASSOCIATED WITH THE INTRODUCTION OF A NEW OR IMPROVED CAPABILITY.

3. "MAJOR ATTRITION ITEMS" ARE THOSE WHICH REPLACE AN EXISTING TYPE OF MAJOR EQUIPMENT WHICH IS WORN OUT, DAMAGED OR LOST.

4. THE THRUST OF THIS POLICY IS THAT FMS FINANCING IS NOT NORMALLY APPROVED FOR PURCHASES OF TRAINING, SPARE PARTS, AMMUNITION, OTHER CONSUMABLES, OR EXPENDABLE EQUIPMENT. THE ONLY STANDARD EXCEPTION IS TO PERMIT FMS FINANCING FOR THE PURCHASE OF SUCH ITEMS AS TECHNICAL MANUALS AND INITIAL TRAINING IN THE OPERATION AND MAINTENANCE OF DEFENSE EQUIPMENT, INITIAL (UP TO ONE YEAR) STOCKS OF SPARE PARTS, INITIAL AMMUNITION (UP TO ONE YEAR TRAINING AND/OR BASIC RESERVE STOCKS), AND OTHER CONSUMABLE OR EXPENDABLE EQUIPMENT LOGICALLY INCLUDED IN THE INITIAL CONFIDENTIAL

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PURCHASE OF A WEAPONS SYSTEM OR EQUIPMENT PACKAGE. THE PURPOSES OF THIS STANDARD EXCEPTION ARE TO ENSURE THAT THE PURCHASING GOVERNMENT OBTAINS THE CAPABILITY TO UTILIZE THE EQUIPMENT ORDERED AND TO PERMIT A SINGLE METHOD OF FINANCING ALL ITEMS INCLUDED IN A SINGLE MAJOR SALE; AT THE SAME TIME, THE PURCHASER SHOULD BE BROUGHT TO RECOGNIZE THE AMOUNT OF ASSOCIATED O&M AND OTHER COSTS IT WILL BE ASSUMING IN ITS OWN DEFENSE BUDGET FOR FUTURE YEARS, IN ADDITION TO THE FMS INTEREST AND PRINCIPAL REPAYMENT FOR INITIAL PURCHASE.

5. THE REASONS FOR THIS BASIC POLICY INCLUDE:

A) PRESENTATIONS TO CONGRESS IN SUPPORT OF THE FMS FINANCING PROGRAM HAVE CONSISTENTLY EMPHASIZED THE NEEDS OF LDC'S FOR LONG TERM FINANCING OF EXPENSIVE MODERN WEAPONS SYSTEMS. THE ARMS EXPORT CONTROL ACT EXPRESSES THE PURPOSE OF ASSISTING "FRIENDLY FOREIGN COUNTRIES HAVING SUFFICIENT WEALTH TO MAINTAIN AND EQUIP THEIR OWN MILITARY FORCES, OR TO ASSUME PROGRESSIVELY LARGER SHARES OF THE COSTS THEREOF, WITHOUT UNDUE BURDEN TO THEIR ECONOMIES," AND RECOGNIZES THAT, "BECAUSE OF THE GROWING COST AND COMPLEXITY OF DEFENSE EQUIPMENT, IT IS INCREASINGLY DIFFICULT FOR ANY COUNTRY, PARTICULARLY A DEVELOPING

COUNTRY, TO FILL ALL OF ITS LEGITIMATE DEFENSE REQUIREMENTS FROM ITS OWN DESIGN AND PRODUCTION BASE."

B) USE OF FMS FINANCING TO SUPPORT CURRENT OPERATING EXPENSES OF FOREIGN MILITARY FORCES, INCLUDING PURCHASE OF SPARE PARTS, TRAINING AMMUNITION, AND OTHER CONSUMABLES AMOUNTS TO A FORM OF BUDGET SUPPORT, WHICH INVOLVES THE USG SUBSIDIZING THE MANAGEMENT OF FOREIGN MILITARY FORCES AND MAY DISGUISE THE TRUE COSTS OF MAINTAINING SUCH FORCES. IN A WORST CASE, A FOREIGN GOVERNMENT MIGHT

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USE ITS FOREIGN EXCHANGE FREED BY SUCH USE OF FMS FINANCING TO PURCHASE MAJOR DEFENSE EQUIPMENT FROM THIRD COUNTRY SUPPLIERS, IN DIRECT CONTRAVENTION OF THE MUTUAL SECURITY GOALS OF THE FMS PROGRAM.

C) IT IS A BASIC FINANCIAL MANAGEMENT PRINCIPLE THAT LONG-TERM CREDITS SHOULD NOT BE EXTENDED TO COVER SHORT-TERM OBLIGATIONS. FMS REPAYMENT TERMS IN PRINCIPLE ARE LIMITED TO THE REASONABLE LIFE EXPECTANCY OF THE ARTICLES PURCHASED.

D) THE OBJECTIVE OF THE PROGRAM IS TO ENCOURAGE THE BUILDING OF CERTAIN FRIENDLY FOREIGN MILITARY INSTITUTIONS IN A MANNER WHICH ARE FUNDAMENTALLY SOUND AND WHICH WILL HELP FOREIGN GOVERNMENTS TO ACHIEVE SELF-DEFENSE CAPABILITY, RATHER THAN PERPETUATE DEPENDENCE ON THE USG.

E) PRUDENT MANAGEMENT OF FOREIGN MILITARY SALES FINANCING IS AN ESSENTIAL ELEMENT IN THE RESPONSIBILITY VESTED IN THE SECRETARY OF STATE FOR CONTINUOUS SUPERVISION AND GENERAL DIRECTION OF THE ENTIRE FMS PROGRAM, TO ENSURE THAT THE FOREIGN POLICY OF THE UNITED STATES IS BEST SERVED THEREBY.

6. A RECENT REVIEW OF USES OF FMS FINANCING HAS INDICATED THAT APPLICATION OF THE BASIC POLICY STATED ABOVE HAS BEEN UNEVEN, AND THERE HAVE BEEN A NUMBER OF EXCEPTIONS IN THE PAST WHICH HAVE APPARENTLY BEEN ERRONEOUSLY INTERPRETED IN THE FIELD AND BY RECIPIENT GOVERNMENTS AS ESTABLISHING PRECEDENTS FOR CONTINUING USE OF FMS FINANCING IN DEROGATION OF ESTABLISHED POLICY.

7. ON THE OTHER HAND, THE DEPARTMENT RECOGNIZES THAT SPECIAL CIRCUMSTANCES CAN ARISE WHICH MAY RECOMMEND EXCEPTIONAL APPROVAL FOR USE OF EXISTING FMS CREDITS FOR FINANCING CONSUMABLES, TRAINING, OR OTHER OPERATIONS

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AND MAINTENANCE COSTS. THE FOLLOWING IS A PARTIAL ILLUSTRATIVE LIST BASED ON RECENT CASES OF SUCH CIRCUMSTANCES WHICH MAY, RPT, MAY, IN COMBINATION WITH OTHER

FACTORS FORM THE BASIS FOR JUSTIFYING AN EXCEPTION TO THE RULE:

A) AN ABRUPT ADVERSE MILITARY OR SECURITY DEVELOPMENT.

B) AN ABRUPT ADVERSE ECONOMIC DEVELOPMENT OR THE IMPOSITION ON AN LDC OR A BURDEN WHICH WITHOUT RESORT TO FMS FINANCING WOULD OTHERWISE SIMPLY BE SHIFTED TO US ECONOMIC CONCESSIONARY AID.

C) EXTRAORDINARY NEED FOR UNPROGRAMMED MAJOR OVERHAUL OF AIRCRAFT, SHIPS OR OTHER ESSENTIALLY SATISFACTORY MAJOR EQUIPMENT, PARTICULARLY WHEN SUCH OVERALL WOULD PRECLUDE OR DELAY PURCHASE OF NEW END ITEMS.

D) TO PROVIDE A TRANSITION FUNDING SOURCE FOR THOSE O&M ITEMS PREVIOUSLY FINANCED UNDER GRANT MAP TO COUNTRIES RECENTLY (SOMETIMES SUDDENLY) CUT OFF FROM GRANT AID.

E) EXPECTATIONS OF RECIPIENT GOVERNMENTS BASED ON PAST US FAILURE TO EXPLAIN OR ENFORCE STANDING FMS FINANCING POLICIES.

8. OBVIOUSLY, SOME OF THE DIFFICULTIES IN ADHERING TO HARD AND FAST GUIDELINES IN THIS MATTER ARE CAUSED BY THE TIME DELAY BETWEEN THE USG APPROVAL OF AN FMS FINANCING PROGRAM AND THE ACTUAL RECIPIENT GOVERNMENT DECISIONS ON SPECIFIC PURCHASES. THE DEPARTMENT RECOGNIZES THAT ONCE PROGRAM LEVELS ARE APPROVED AND BENEFICIARIES BECOME AWARE OF THE DIMENSIONS OF THEIR "CREDIT LINES" THEY TEND TO REGARD THE POTENTIAL CREDITS AND GUARANTIES AS ASSETS
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WHICH MUST BE SPENT BEFORE A CERTAIN DEADLINE, LEST THEY LOSE THE MONEY. THUS, RECIPIENTS, AT TIMES HAVE SOUGHT TO DEVELOP A SPENDING PROGRAM TO THE MAXIMUM POTENTIAL EVEN THOUGH TIME AND INTERVENING CIRCUMSTANCES MAY HAVE DEMANDED MODIFICATIONS.

9. ALL POSTS WHERE THERE ARE FMS FINANCING PROGRAMS SHOULD TAKE PROMPT STEPS TO ENSURE THAT THE HOST GOVERNMENT IS AWARE OF THE BASIC US POLICY ON THE USES TO WHICH FMS FINANCING MAY BE APPLIED, AND THAT ANY EXCEPTIONS TO THIS POLICY MUST BE FULLY JUSTIFIED AND WILL BE CONSIDERED IN WASHINGTON FOR APPROVAL ONLY ON A ONE-TIME CURRENT YEAR BASIS. IN THIS CONNECTION IT MAY BE HELPFUL TO POINT OUT

THAT FMS PROGRAMS ARE PROPOSED BY THE PRESIDENT ON HIS ANNUAL BUDGET AND ARE APPROVED BY THE CONGRESS ON A YEARLY

BASIS; THERE CAN BE NO COMMITMENTS MORE THAN ONE YEAR IN ADVANCE WITHOUT REVIEW AND APPROVAL AT THE HIGHEST LEVELS OF THE USG. THE FMS PROGRAM CANNOT BE REGARDED AS A RELIABLE SOURCE FOR FINANCING OF CURRENT OPERATING COSTS.

RECIPIENT COUNTRIES MUST BEAR THE BURDEN OF MAINTAINING MILITARY EQUIPMENT FROM THEIR OWN RESOURCES. COUNTRIES HAVING DIFFICULTY IN MEETING CURRENT OPERATING COSTS FROM THEIR OWN BUDGETS SHOULD BE DISCOURAGED FROM BUYING FURTHER EQUIPMENT, ESPECIALLY WEAPONS SYSTEMS, WHICH WILL CAUSE UNREASONABLE DRAIN ON THEIR AVAILABLE RESOURCES.

10. EXCEPTIONS TO POLICY REQUIRE INTERAGENCY COORDINATION AND CLEARANCE PRIOR TO DECISION BY, OR UNDER THE AUTHORITY OF, THE UNDER SECRETARY OF STATE FOR SECURITY ASSISTANCE. REQUESTS FOR EXCEPTION ARE WEIGHED ON THE BASIS OF ALL RELEVANT FACTORS AND INFORMATION AVAILABLE TO WASHINGTON AGENCIES. WE ARE PREPARED TO CONSIDER EXCEPTIONS WHERE CONFIDENTIAL

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SPECIAL CIRCUMSTANCES RECOMMEND DEVIATION FROM STRICT ADHERENCE TO THE POLICY AS EXPLAINED IN THIS MESSAGE. BECAUSE OF PARTICULAR CIRCUMSTANCES WHICH OBTAIN IN THE ADMINISTRATION OF FMS FINANCING PROGRAMS IN LATIN AMERICA, WE ARE PREPARED TO BE ESPECIALLY FORTHCOMING ABOUT GRANTING PROPERLY DOCUMENTED REQUESTS FOR EXCEPTIONS IN THAT AREA. REQUESTS FROM THE FIELD SHOULD CONTAIN A COMPLETE AND DETAILED EXPLANATION OF THE SPECIAL CIRCUMSTANCES AND A REASONED AND THOROUGH JUSTIFICATION, TOGETHER WITH COMMENT ON WHETHER THE HOST GOVERNMENT HAS BEEN INFORMED OF FMS POLICY, AND ITS UNDERSTANDING THEREOF. THE JUSTIFICATION SHOULD BE ENDORSED BY THE CHIEF OF MISSION AND SUBMITTED TO THE DEPARTMENT OF STATE FOR ACTION, WITH THE DEPARTMENT OF DEFENSE AS INFORMATION ADDRESSEE. NO COMMITMENT, SPECIFIC OR TACIT, SHOULD BE MADE TO THE HOST GOVERNMENT PRIOR TO RECEIPT OF THE DEPARTMENT OF STATE REPLY.

11. OUR GOAL IS TO ADMINISTER THE FMS FINANCING PROGRAM WITH WISDOM RATHER THAN RIGIDITY, AND WITH PRUDENCE AND DISCRETION IN SUPPORT OF US FOREIGN POLICY OBJECTIVES.

12. WE WOULD WELCOME COMMENTS FROM THE FIELD ON THIS RESTATEMENT OF POLICY.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 16 SEP 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, MILITARY EQUIPMENT, MILITARY SALES
Control Number: n/a
Copy: SINGLE
Draft Date: 21 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE308154
Document Source: ADS
Document Unique ID: 00
Drafter: T - SJLEDOGAR:RF
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Film Number: D760468-1075
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761293/baaaerbm.tel
Line Count: 268
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ORIGIN SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 30 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <30 JUN 2004 by MartinML>; APPROVED <15 OCT 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FMS POLICY
TAGS: MASS, SG, GB, MX, US
To: DAKAR
LIBREVILLE
MEXICO
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006